

## Message Text

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ACTION NEA-09

INFO OCT-01 EUR-12 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-02

INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01

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R 200500Z MAR 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 2551

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY TEHRAN

USMISSION OECD PARIS

C O N F I D E N T I A L KUWAIT 1258

STATE PASS COMMERCE

E.O. 11652: GDS

TAGS: ENRG, ECEM, EINV, KU

SUBJ: KUWAIT EVOLVING POLICIES FOR ESTABLISHING PETROLEUM-RELATED INDUSTRIES

SUMMARY: AFTER SEVERAL FALSE STARTS, GOK SEEMS TO HAVE EVOLVED COHERENT POLICY CONCERNING ESTABLISHMENT PETROLEUM/GAS-BASED INDUSTRY IN KUWAIT. POLICY APPEARS EXCLUDE PRIVATE KUWAITIS FROM PARTICIPATION IN THESE INDUSTRIES IN FAVOR OF SEVERAL MAJOR PRE-EXISTING COMPANIES ALREADY ACTIVE IN THE PETROLEUM FIELD AND UNDER AEGIS OF KUWAIT OIL, GAS, AND ENERGY CO. WHILE MINOR CHANGES IN THIS POLICY COULD OCCUR NOW THAT FORMER MINISTRY OF OIL AND FINANCE  
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SPLIT AND REORGANIZED, BROAD POLICY LIKELY REMAIN INTACT. END

SUMMARY.

1. SOME RECENT BEHIND SCENES DECISIONS INDICATE GOK HAS LAID DOWN SOME BROAD POLICY GUIDELINES CONCERNING ESTABLISHMENT OF PETROLEUM-BASED INDUSTRY IN KUWAIT. ONE OF THE MOST APPARENT AND INTERESTING ASPECTS OF THIS POLICY IS THE EXCLUSION OF PRIVATE KUWAITI INVESTORS FROM ANY NEW PETROLEUM-BASED INDUSTRY TO BE ESTABLISHED HERE. INSTEAD IT APPEARS THE KUWAIT OIL, GAS, AND ENERGY CO, ESTABLISHED BY AMIRI DECREE THIS SUMMER, WILL ACT AS THE HOLDING COMPANY FOR MAJOR JOINT-SECTOR OR GOK-OWNED COMPANIES ALREADY HAVING OPERATIONS IN THIS AREA. KOGEC WILL SET POLICY, APPROVE INDUSTRIES, AND ALLOCATE THE SUPPLY OF PETROLEUM AND GAS TO BE USED AS FEEDSTOCK IN THESE INDUSTRIES. THIS WILL BE IN ADDITION TO KOGEC'S EVENTUAL ROLE AS THE MARKETING AGENCY FOR KUWAITI CRUDE.

2. RECENTLY, A NUMBER OF PRIVATE AND INFLUENTIAL KUWAITIS INCLUDING SOME MEMBERS OF THE SABAH FAMILY CLOSE TO THE INNER CIRCLE FORMED GROUPS TO ENTER INTO PARTNERSHIPS WITH THE GOK AND FOREIGN COMPANIES FOR ESTABLISHING MAJOR PETROLEUM-RELATED INDUSTRY IN KUWAIT. SOME EXAMPLES INCLUDE A PRIVATE BUSINESSMAN AND CONFIDANTE OF THE CROWN PRINCE/PRIME MINISTER WHO SOUGHT TO BRING W R GRACE TO KUWAIT; A GROUP INCLUDING MEMBERS OF THE SABAH FAMILY WHO WANTED TO PRODUCE PARAFFINS WITH MITSUI; ANOTHER GROUP WHICH MADE CONTACTS WITH SEVERAL FIRMS INCLUDING A US COMPANY FOR THE MANUFACTURE OF PETROPROTEINS; AND A FOURTH GROUP WHICH HOPED TO ESTABLISH AN OPERATION TO PRODUCE BASE STOCK FOR A LUBE OIL BLENDING OPERATION IN KUWAIT. IN EVERY CASE THESE GROUPS HAVE BEEN REBUFFED IN RECENT MONTHS, ALTHOUGH PETRO-CHEMICAL INDUSTRIES CO (PIC) IS NOW NEGOTIATING WITH GRACE SANS KUWAITI PARTNER, AND THE KUWAIT NATIONAL PETROLEUM CO (KNPC) IS CONSIDERING A MAJOR LUBE OIL VENTURE. GIVEN THE STRENGTH OF THESE PRIVATE GROUPS AND THE LOGIC INHERENT IN SOME OF THE PROPOSED PROJECTS, IT IS UNLIKELY THAT THIS HAS BEEN COINCIDENCE. RATHER IT WOULD APPEAR THE GOK INTENDS TO RESIST THE PRESSURE TO OPEN UP PETROLEUM-RELATED INDUSTRY FIELD TO PRIVATE ENTREPRENEURS AND INTENDS TO WORK THROUGH PRE-EXISTING COMPANIES IN WHICH IT ALREADY ENJOYS SUBSTANTIAL OWNERSHIP OR PRIVATE COMPANIES ALREADY PLAYING A MAJOR ROLE IN THE INDUSTRY SUCH AS THE KUWAIT OIL TANKERS CO (KOTC) IN WHICH CASE IT WILL INSIST ON BEING PERMITTED TO BUY SUBSTANTIAL EQUITY IN THE COMPANY. IN EFFECT, AS IN THE BANKING INDUSTRY, KUWAIT IS OPTING

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FOR A FEW LARGE WELL REGULATED CONCERNS RATHER THAN A PROLIFERATION OF SMALL FREE-WHEELING OUTFITS. MOREOVER, IT WILL INSIST THAT EVERY NEW PROJECT BE CAREFULLY STUDIED BEFORE BEING IMPLEMENTED.

3. WHILE WE ARE BY NO MEANS CERTAIN WHAT THE FINAL CONFIGURATION OF INDUSTRIES WILL BE HERE OR WHO WILL RUN THEM, THE OUTLINES OF KUWAIT'S PETROLEUM AND PETROCHEMICAL INDUSTRIAL DEVELOPMENT HAVE BECOME MORE CLEAR. IN ALL LIKELIHOOD, PIC WILL UNDERTAKE ALL

PROJECTS IN THE PETROCHEMICAL FIELD INCLUDING ITS PRESENT FERTILIZER OPERATIONS. KNPC WILL BE THE MAIN PROCESSOR OF CRUDE AND MAY TAKE OVER THE KUWAIT OIL COMPANY'S REFINERY IN ADDITION TO ITS PRESENT AND PROJECTED REFINERIES. PROCESSING MAY INCLUDE PROJECTS SUCH AS ASPHALT AND LUBE OIL MANUFACTURE. KOC WILL CONTINUE IN ITS ROLE OF PRODUCER. KUWAIT OIL TANKERS CO WILL TRANSPORT THE MAXIMUM AMOUNT OF CRUDE POSSIBLE AND MAY START A PRODUCT TANKER FLEET (IF IT CAN FORESTALL KNPC). KOTC MAY ALSO BE GIVEN RESPONSIBILITY FOR THE LPG CARRIERS ORDERED LAST YEAR BY THE GOK. AS PREVIOUSLY STATED KEGEC WOULD MARKET THE CRUDE WHILE THE OTHER COMPANIES UNDER IT WOULD CONTINUE TO MARKET THEIR RESPECTIVE PRODUCTS.

4. KEEPING WITH THIS SCENARIO IS AN UNCONFIRMED REPORT CONCERNING HOW THE GOK INTENDS TO RUN ITS PLANNED LPG FACILITY. ACCORDING THIS REPORT, INSTEAD OF CREATING A NEW COMPANY FOR THIS PURPOSE (ALTHOUGH THIS IS STILL POSSIBLE), IT MAY GIVE RESPONSIBILITY FOR THE GATHERING FACILITIES TO KOC, FOR THE PROCESSING UNITS TO KNPC, AND FOR THE TRANSPORT AS ALREADY MENTIONED TO KOTC OR A NEW SUBSIDIARY. PIC WOULD USE SOME OF THE REMAINING GAS AS FEEDSTOCK IN NEW INDUSTRIES.

5. MUCH OF ABOVE IS PERFORCE SPECULATIVE. NEVERTHELESS, IT SEEMS TO US AS THE MOST PLAUSIBLE FRAMEWORK FOR INTERPRETING THE GOK'S INTENTIONS VIS-A-VIS DOMESTIC UTILIZATION OF ITS PETROLEUM RESOURCES. ALREADY, HOWEVER, THERE HAVE BEEN RUMBLINGS THAT THE NEW MINISTER OF OIL IS NOT ENTIRELY PLEASED WITH THE TRUNCATED RESPONSIBILITIES OF HIS MINISTRY AND MAY BE ATTEMPTING TO LIMIT SOME OF KEGEC'S PREROGATIVES IN FAVOR OF HIS MINISTRY. WE DOUBT, HOWEVER, THAT MOO/KOGEK COMPETITION FOR POWER WILL ALTER APPARENT BASIC POLICY DECISION TO EXCLUDE PRIVATE SECTOR FROM PLAYING SIGNIFICANT DIRECT ROLE IN MULTI-BILLION DOLLAR DEVELOPMENT OF PETROLEUM-BASED INDUSTRY HERE.

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